

**CITY OF SPEARFISH
SPEARFISH, SOUTH DAKOTA**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

CITY OF SPEARFISH

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Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12, and the required supplementary budgetary information on pages 42 through 46, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining non-major fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

January 19, 2010

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008

This section of the City of Spearfish (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2008. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's net assets from governmental and business-type activities increased by \$6,527,980, primarily due to an increase in cash assets and acquisition of capital assets.

During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$13,110,614, before transfers, and the governmental program expenditures were \$8,504,394.

The City's proprietary funds revenue exceeded expenses by \$1,871,760 after transfers.

The general fund reported a \$250,002 current year increase primarily due to increased property tax collections, increased sales and use tax collections, and increased gaming tax.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the Water Fund, the Electric Production Fund, the Sewer Fund, the Parking Fund, the Solid Waste Fund, and the Campground Fund. In addition, the City has an Internal Service Fund for health insurance.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	Government-wide Statements	Fund Statements Governmental Funds	Fund Statements Proprietary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets -- the difference between the City's assets and liabilities -- are one way to measure the City's financial health or position.

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

Business-type Activities -- The City charges fees to customers to cover the costs of certain services it provides. The City's water and sewer systems, as well as the solid waste program, the hydro electric plant, the City campground, and a small parking district are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds -- not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds -- Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds -- Services for which the City charges customers fees to cover the cost of the service are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 12.34 percent between 2007 and 2008 – increasing by \$6,527,980.

Table A-1

Statement of Net Assets						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2008	2007	2008	2007	2008
Current & Other Assets	\$19,164,827	\$ 13,379,201	\$ 5,769,342	\$ 5,970,354	\$24,934,169	\$ 19,349,555
Capital Assets	27,656,514	41,932,626	12,225,262	15,735,388	39,881,776	57,668,014
Total Assets	\$46,821,341	\$ 55,311,827	\$17,994,604	\$ 21,705,742	\$64,815,945	\$ 77,017,569
Long-Term Debt	\$10,910,350	\$ 14,300,782	\$ 426,370	\$ 1,985,838	\$11,336,720	\$ 16,286,620
Other Liabilities	388,973	765,157	195,700	475,610	584,673	1,240,767
Total Liabilities	\$11,299,323	\$ 15,065,939	\$ 622,070	\$ 2,461,448	\$11,921,393	\$ 17,527,387
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$17,115,177	\$ 28,016,019	\$11,900,198	\$ 13,864,627	\$29,015,375	\$ 41,880,646
Restricted	11,308,300	3,613,150	-	-	11,308,300	3,613,150
Unrestricted	7,098,541	8,616,719	5,472,336	5,379,667	12,570,877	13,996,386
Total Net Assets	\$35,522,018	\$ 40,245,888	\$17,372,534	\$ 19,244,294	\$52,894,552	\$ 59,490,182
Beginning Net Assets	\$30,889,848	\$ 35,522,018	\$16,182,660	\$ 17,372,534	\$47,072,508	\$ 52,894,552
Prior Period Adjustment	98,788	67,650	-	-	98,788	67,650
Increase in Net Assets	4,533,382	4,656,220	1,189,874	1,871,760	5,723,256	6,527,980
Percentage of Increase						
Net Assets	14.68%	13.11%	7.35%	10.77%	12.16%	12.34%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the City, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City's total revenues (excluding transfers and gain (loss) on capital assets) totaled \$18,612,728. See Figure A-2 below for the revenue sources for 2008. The total cost of all programs and services increased also. The City's expenses cover a range of services, with 43 percent related to public works administration, public safety, and general government. (See Figure A-3)

Figure A-2: Revenue Sources for 2008

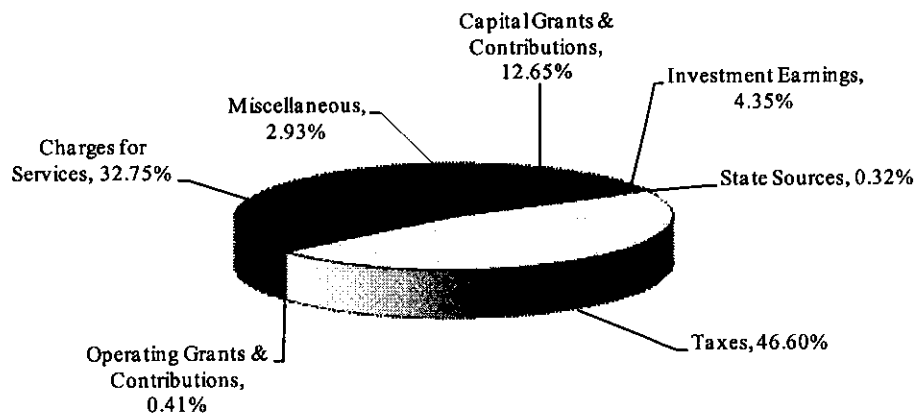
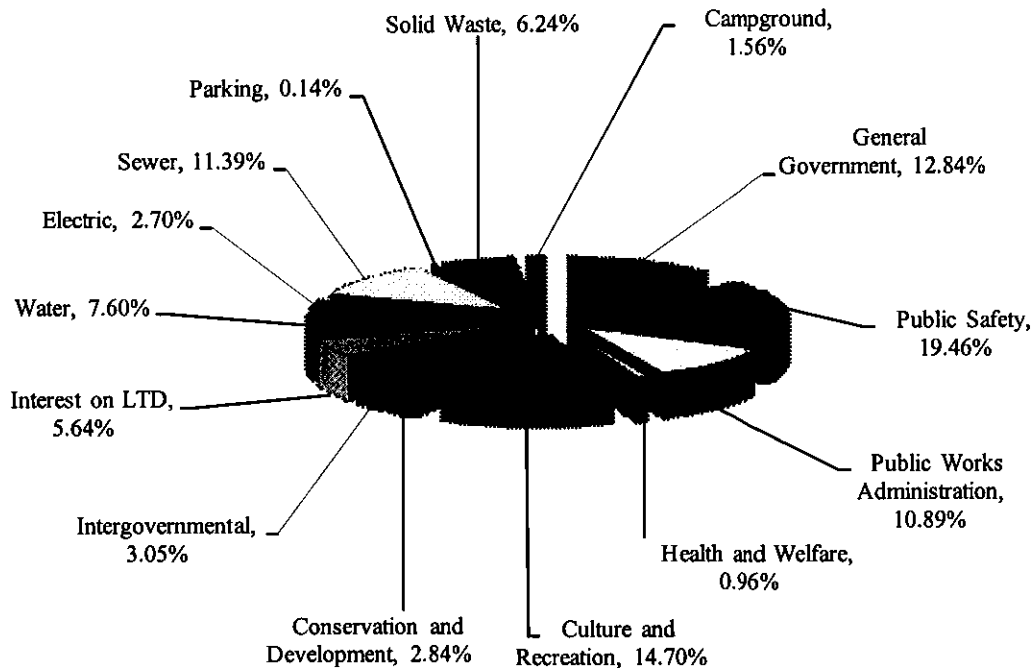


Figure A-3: Expenditures for 2008



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2007	2008	2007	2008	2007	2008
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 1,077,420	\$ 1,413,966	\$ 4,354,614	\$ 4,515,321	\$ 5,432,034	\$ 5,929,287
Operating Grants and Contributions	71,518	38,595	-	34,804	71,518	73,399
Capital Grants and Contributions	934,537	1,865,021	163,076	681,400	1,097,613	2,546,421
<i>General Revenues</i>						
Taxes	7,834,753	8,421,168	-	-	7,834,753	8,421,168
Revenue State Sources	304,450	326,992	-	-	304,450	326,992
Unrestricted Investment Earnings	623,403	586,185	274,706	199,939	898,109	786,124
Other	480,436	458,687	79,530	70,650	559,966	529,337
Total Revenues	\$ 11,326,517	\$ 13,110,614	\$ 4,871,926	\$ 5,502,114	\$ 16,198,443	\$ 18,612,728
Expenses						
General Government	\$ 1,463,827	\$ 1,551,185	\$ -	\$ -	\$ 1,463,827	\$ 1,551,185
Public Safety	2,144,499	2,352,292	-	-	2,144,499	2,352,292
Public Works	1,003,307	1,316,246	-	-	1,003,307	1,316,246
Health and Welfare	127,598	116,069	-	-	127,598	116,069
Culture and Recreation	1,356,917	1,776,116	-	-	1,356,917	1,776,116
Conservation and Development	323,348	342,912	-	-	323,348	342,912
Interest on Long-Term Debt	218,009	681,120	-	-	218,009	681,120
Intergovernmental	328,994	368,454	-	-	328,994	368,454
Water Services	-	-	976,779	918,624	976,779	918,624
Electric Services	-	-	356,768	326,511	356,768	326,511
Sewer Services	-	-	1,251,523	1,375,927	1,251,523	1,375,927
Parking	-	-	17,158	17,208	17,158	17,208
Solid Waste	-	-	736,693	753,650	736,693	753,650
Campground	-	-	169,767	188,434	169,767	188,434
Total Expenses	\$ 6,966,499	\$ 8,504,394	\$ 3,508,688	\$ 3,580,354	\$ 10,475,187	\$ 12,084,748
Excess Revenues						
Before Transfers	\$ 4,360,018	\$ 4,606,220	\$ 1,363,238	\$ 1,921,760	\$ 5,723,256	\$ 6,527,980
Transfers	173,364	50,000	(173,364)	(50,000)	-	-
Increase in Net Assets	\$ 4,533,382	\$ 4,656,220	\$ 1,189,874	\$ 1,871,760	\$ 5,723,256	\$ 6,527,980
Net Assets - Ending	\$ 35,522,018	\$ 40,245,888	\$ 17,372,534	\$ 19,244,294	\$ 52,894,552	\$ 59,490,182

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Revenues of the City's governmental activities exceeded expenses by \$4,656,220. Factors contributing to these results included:

- The City received a significant increase in sales and use taxes, property tax and gaming tax collections.
- The City received significant contributions of land for a municipal golf course, and right-of-way for streets in a new subdivision.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$1,871,760. Factors contributing to these results included:

- Significant contributions of capital in the form of water lines were recognized.
- The City received an increase of revenues in charges for goods and services, as rates were increased and new residential homes were served.

The business-type – enterprise funds transferred \$50,000 to the governmental activities – general fund to subsidize operations.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

See above for significant changes in governmental and business-type activities that also affected City funds. The City maintains several governmental funds and six business-type funds. Most of the City's funds had some gain during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. The amendments were increases in appropriations by contingency transfer to prevent budget overruns.

A significant budgetary change occurred during the year with the creations of the City Administration department. This department was created to categorize the expenditures for the position of the City Administrator and a staff member and is listed under the Executive function.

A significant budget variance in the Highways and Streets function occurred during the year. This variance was due to increased snowfall amounts in 2008 including several heavy, wet storms in December of 2008.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

CAPITAL ASSET ADMINISTRATION

At the end of 2008, the City had \$57,668,014 invested in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$17,786,238.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Land	\$ 6,428,521	\$ 7,503,026	\$ 483,843	\$ 483,843
Buildings	6,294,442	7,374,179	2,408,538	2,409,361
Improvements	9,313,563	11,312,258	7,774,572	8,679,339
Machinery & Equipment	1,664,183	1,646,926	1,093,807	957,936
Construction Work in Progress	3,955,805	14,096,237	464,502	3,204,909
Totals	\$ 27,656,514	\$ 41,932,626	\$ 12,225,262	\$ 15,735,388

This year's major capital asset additions included:

- Dedication of the Elkhorn Ridge Golf Clubhouse to the City, value of \$1,263,615, a tax increment funded project
- Completion of Improvement Projects on 27th Street, Aspen Drive and Heritage Drive, totaling \$790,078
- Completion of the North Avenue Improvement Project, totaling \$456,736
- Completion of the extension of the city Recreation Path from Sandstone Drive to 27th Street, totaling \$530,247
- Dedication of the Elkhorn Ridge Irrigation Well #4, value of \$370,297, a tax increment funded project

Business-type major additions include the construction of a new Campground Shower House at a cost of \$172,341 and completion of the Hillview Drive/North Avenue Sanitary Sewer Improvements at a cost of \$359,755. The Business-type functions also received newly constructed water lines for two new streets, value of \$681,400, being dedicated by the developer.

Governmental Activities Construction in Progress includes:

- City Recreation and Aquatics Center, with \$7,090,180 spent in 2008, and an estimated \$400,000 projected to complete the project in 2009
- 8th Street Improvements Project, with \$403,028 spent in 2008, and an estimated \$220,000 to complete the project in 2009
- Main Street and Jackson Boulevard Improvement Project, with \$74,231 spent in 2008 and an estimated \$899,000 to complete the project in 2009
- Tax increment funded Elkhorn Ridge Municipal Golf Course and supporting Roadways has incurred \$3,912,641 in 2008 expenditures, and expects to spend an additional \$2,679,000 in 2009 to bring the projects to substantial completion

Business-type Construction in Progress includes an upgrade and expansion of the Wastewater Treatment Plant in the amount of \$2,511,831, with an additional \$4,400,000 projected to complete the project in 2009. This will be funded with SRF loan and Consolidated Water Facilities Construction Program grant proceeds.

In addition to the above, the City anticipates construction in 2009 of \$520,000 in drainage projects, a new well and reservoir totaling \$1,470,000, improvements to streets for \$1,050,000, a new fire engine totaling \$450,000, a new 911 and administrative telephone system for \$273,000, improvements to sewer system for \$150,000 and various smaller projects throughout the City. We will use resources on hand and a bond issue to accomplish these goals.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2008

LONG-TERM DEBT

At year-end, the City had \$16,286,620 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2007 as shown on Table A-4 below.

Table A-4

Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Compensated Absences	\$ 369,013	\$ 384,175	\$ 101,306	\$ 115,077
Sales Tax Revenue Bonds	8,986,447	8,515,743	-	-
TIF #1	1,488,223	5,400,864	-	-
SRF Loan - Sewer	-	-	225,064	57,395
Clean Water Revenue Bonds	-	-	-	1,813,366
Contracts Payable	66,667	-	100,000	-
Total	\$ 10,910,350	\$ 14,300,782	\$ 426,370	\$ 1,985,838

The City is liable for the accrued vacation and sick leave payable (compensated absences) to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

The City has outstanding \$8,480,000 in sales tax revenue bonds used to finance the Recreation and Aquatics Center.

The City has outstanding debt for TIF #1 in the amount of \$5,400,864 for construction of the Elkhorn Ridge Municipal Golf Course supporting roadways and irrigation well.

The City has outstanding \$57,395 in Water Pollution Control Revolving Loan (SRF) funds. The bonds are secured and paid for by the Sewer Fund. The City does not anticipate the use of any tax dollars to pay for these bonds. These bonds were used to build an addition to the City's Wastewater Treatment Plant and will be fully paid in May of 2009.

The City also has outstanding Humane Society Bonds in the amount of \$35,743, used to purchase a building to house the Western Hills Humane Society. These bonds mature in December of 2011.

By the year end, the City has outstanding \$1,813,365 in Clean Water Revenue Borrower Bonds, Series 2008 with a projected borrowing of \$5,900,000 by end of 2010. The bonds were secured and will be paid for by the Sewer Fund. The City does not anticipate the use of any tax dollars to pay for these bonds. These bonds are being used for improvements to the City's Wastewater Treatment Plant and will be fully paid in 2030.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City experienced an increase in total property valuation of \$43,413,864, up 8 percent from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$121,124. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City experienced an increase in taxable sales of 6 percent over the prior year. The City has budgeted for a small increase in sales tax revenue for 2009 compared to the budgeted 2008 amount. The budgeted 2009 sales tax amount is lower than the 2008 actual receipts, due to conservative budgeting and anticipation of an economic slowdown.

The City's adopted General Fund budget for the 2009 calendar year will increase to \$6,717,153, an increase of \$573,817. The largest portions of this increase are due to the addition of the City Administration department, the continued operations of the Recreation and Aquatics Center, which was opened in October 2008, and also due to increases in wages and cost-of-living adjustments.

The City's business-type activities (water and sewer operations) expect that the results for 2009 will improve based on an annual rate increase implemented to cover the increasing cost of wages, benefits and cost of operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Anyone with questions about this report or in need of additional information should contact the City of Spearfish Finance Office, 625 Fifth Street, Spearfish, SD 57783.

CITY OF SPEARFISH

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 4,650,085	\$ 1,556,180	\$ 6,206,265
Investments (Note 2)	5,867,845	4,045,836	9,913,681
Accounts Receivable, Net	2,065,633	368,338	2,433,971
Restricted Assets:			
Restricted Investments	696,850	-	696,850
Other Assets	98,788	-	98,788
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	21,599,263	3,688,752	25,288,015
Other Capital Assets, Net of Depreciation	20,333,363	12,046,636	32,379,999
TOTAL ASSETS	\$ 55,311,827	\$ 21,705,742	\$ 77,017,569
Liabilities:			
Accounts Payable	\$ 313,188	\$ 306,891	\$ 620,079
Deferred Revenue (Note 3)	80,000	-	80,000
Other Current Liabilities	371,969	168,719	540,688
Long-Term Liabilities (Note 7):			
Due Within One Year	853,243	172,473	1,025,716
Due in More Than One Year	13,447,539	1,813,365	15,260,904
TOTAL LIABILITIES	15,065,939	2,461,448	17,527,387
Net Assets:			
Invested in Capital Assets, Net of Related Debt	28,016,019	13,864,627	41,880,646
Restricted for:			
Water Park	216,308	-	216,308
Special Assessment Projects	647,622	-	647,622
Debt Service	709,962	-	709,962
City Promotion	550,723	-	550,723
Street Maintenance	223,312	-	223,312
Parks	273,826	-	273,826
911 Services	269,773	-	269,773
Business Improvement District Projects	81,749	-	81,749
Tax Increment Financing District	68,574	-	68,574
Recreation Paths	23,158	-	23,158
Library	63,701	-	63,701
SDPAA	98,788	-	98,788
Permanently Restricted Purposes			
Expendable	335,654	-	335,654
Nonexpendable	50,000	-	50,000
Unrestricted	8,616,719	5,379,667	13,996,386
TOTAL NET ASSETS	40,245,888	19,244,294	59,490,182
TOTAL LIABILITIES AND NET ASSETS	\$ 55,311,827	\$ 21,705,742	\$ 77,017,569

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	----- Program Revenues -----				Net (Expense) Revenue and ----- Changes in Net Assets -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 1,551,185	\$ 297,060	\$ -	\$ -	(1,254,125)	\$ -	\$ (1,254,125)
Public Safety	2,352,292	135,796	899	76,475	(2,139,122)	-	(2,139,122)
Public Works	1,316,246	896,544	36,231	471,039	87,568	-	87,568
Health and Welfare	116,069	-	-	-	(116,069)	-	(116,069)
Culture and Recreation	1,776,116	84,566	1,465	1,317,507	(372,578)	-	(372,578)
Conservation and Development	342,912	-	-	-	(342,912)	-	(342,912)
Intergovernmental	368,454	-	-	-	(368,454)	-	(368,454)
Interest on Long-Term Debt	681,120	-	-	-	(681,120)	-	(681,120)
Total Governmental Activities	8,504,394	1,413,966	38,595	1,865,021	(5,186,812)	-	(5,186,812)
Business-Type Activities:							
Water	918,624	1,385,670	-	681,400	-	1,148,446	1,148,446
Electric	326,511	366,874	-	-	-	40,363	40,363
Sewer	1,375,927	1,633,192	34,804	-	-	292,069	292,069
Parking	17,208	13,680	-	-	-	(3,528)	(3,528)
Solid Waste	753,650	858,263	-	-	-	104,613	104,613
Campground	188,434	257,642	-	-	-	69,208	69,208
Total Business-Type Activities	3,580,354	4,515,321	34,804	681,400	-	1,651,171	1,651,171
Total Primary Government	\$ 12,084,748	\$ 5,929,287	\$ 73,399	\$ 2,546,421	(5,186,812)	1,651,171	(3,535,641)
General Revenues:							
Taxes:							
Property Taxes					1,757,518	-	1,757,518
Sales Taxes					6,507,517	-	6,507,517
Other Taxes					107,344	-	107,344
Gross Receipts Tax					48,789	-	48,789
State Shared Revenue					326,992	-	326,992
Grants and Contributions Not Restricted					281,047	-	281,047
Unrestricted Investment Earnings					586,185	199,939	786,124
Miscellaneous Revenue					177,640	70,650	248,290
Transfers					50,000	(50,000)	-
Total General Revenue and Transfers					9,843,032	220,589	10,063,621
Change in Net Assets					4,656,220	1,871,760	6,527,980
Net Assets, Beginning					35,522,018	17,372,534	52,894,552
Prior Period Adjustment (Note 16)					67,650	-	67,650
Net Assets, Beginning, as Restated					35,589,668	17,372,534	52,962,202
Net Assets, Ending					\$ 40,245,888	\$ 19,244,294	\$ 59,490,182

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	General Fund	Second Penny Sales Tax Fund	Special Assessment Revolving Fund	Water Park Fund
Assets				
101 Cash and Cash Equivalents	\$ 736,478	\$ 1,676,236	\$ 293,641	\$ 288,188
104 Investments	3,663,769	702,899	293,498	67,531
107 Restricted Investments	-	696,850	-	-
108 Property Taxes Receivable	36,475	-	-	-
110 Sales Taxes Receivable	332,922	332,922	-	-
115 Accounts Receivable, Net	-	-	-	26,667
121 Special Assessments Receivable	-	-	125,542	-
128 Notes Receivable (Note 4)	-	-	-	-
128 Contract Receivable (Note 14)	-	80,000	-	-
132 Due from Other Governments	288,213	-	-	-
154 Deposits	98,788	-	-	-
Total Assets	\$ 5,156,645	\$ 3,488,907	\$ 712,681	\$ 382,386
Liabilities and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ 52,715	\$ -	\$ -	\$ 139,411
216 Accrued Wages Payable	178,983	-	-	-
220 Customer Deposits	335	-	-	-
224 Deferred Revenue	36,475	80,000	125,542	26,667
Total Liabilities	268,508	80,000	125,542	166,078
<i>Fund Balances</i>				
261 <i>Reserved Fund Balances</i>				
261.04 Reserved for Debt Service	-	696,850	-	-
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-
261.00 SDPAA Reserve	98,788	-	-	-
262 <i>Unreserved Fund Balances</i>				
262.01 Designated for Next Year's Appropriations	635,853	120,000	-	216,308
262.09 Undesignated	4,153,496	2,592,057	587,139	-
262.09 Undesignated, Reported in Nonmajor:				
Special Revenue Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total Fund Balances	4,888,137	3,408,907	587,139	216,308
Total Liabilities and Fund Balances	\$ 5,156,645	\$ 3,488,907	\$ 712,681	\$ 382,386

The accompanying notes are an integral part of the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 1,570,557	\$ 4,565,100
1,064,516	5,792,213
-	696,850
-	36,475
43,872	709,716
-	26,667
11,379	136,921
671,983	671,983
-	80,000
115,658	403,871
-	98,788
\$ 3,477,965	\$ 13,218,584

\$ 121,062	\$ 313,188
-	178,983
3,580	3,915
98,484	367,168
223,126	863,254

-	696,850
671,983	671,983
-	98,788
322,736	1,294,897
-	7,332,692
1,836,781	1,836,781
13,112	13,112
24,573	24,573
385,654	385,654
3,254,839	12,355,330
\$ 3,477,965	\$ 13,218,584

CITY OF SPEARFISH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Total Fund Balances - Governmental Funds \$ 12,355,330

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 41,932,626

Long-term liabilities, including bonds payable are not due and
payable in the current period and therefore not reported in the
funds. (14,300,782)

Assets such as delinquent taxes receivable, grants receivable and special
assessments receivable are not available to pay for current period expenditures
and therefore are deferred in the funds. 287,168

Accrued interest expense is not due and payable in the current
period and therefore is not reported in the funds. (189,071)

Internal service funds are used by management to charge the
costs of activities, such as insurance, to individual funds.
The assets and liabilities of internal service funds are included
in the governmental activities in the Statement of Net Assets. 160,617

Total Net Assets - Governmental Funds \$ 40,245,888

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

		General Fund	Second Penny Sales Tax Fund	Special Assessment Revolving Fund	Water Park Fund
Revenue					
<i>Taxes:</i>					
31100	General Property Taxes	\$ 1,534,349	\$ -	\$ -	\$ -
31300	General Sales and Use Taxes	3,002,586	3,002,586	-	-
31400	Gross Receipts Tax	48,789	-	-	-
31500	Amusement Taxes	924	-	-	-
31900	Penalties and Interest on Delinquent Taxes	3,508	-	-	-
31600	911 Telephone Surcharge	-	-	-	-
32000	Licenses and Permits	275,565	-	-	-
<i>Intergovernmental Revenue:</i>					
33100	Federal Grants	-	-	-	-
33400	State Grants	38,595	10,000	-	40,000
<i>State Shared Revenue:</i>					
33501	Bank Franchise Tax	4,161	-	-	-
33503	Liquor Tax Reversion	53,070	-	-	-
33504	Motor Vehicle Licenses (5%)	49,433	-	-	-
33508	Local Government Highway and Bridge Fund	-	-	-	-
33520	Other	269,761	-	-	-
<i>County Shared Revenue:</i>					
33900	County Payments in Lieu of Taxes	219,449	-	-	-
33802	County HBR Tax	19,271	-	-	-
<i>Charges for Goods and Services:</i>					
34100	General Government	5,458	-	-	-
34200	Public Safety	128,797	-	-	-
34300	Highways and Streets	591	-	-	-
34600	Culture and Recreation	77,510	-	-	-
34800	Cemeteries	6,997	-	-	-
34900	Other	39	-	-	-
<i>Fines and Forfeits:</i>					
35100	Court Fines and Costs	893	-	-	-
35200	Animal Control Fines	5,410	-	-	-
35400	Library	-	-	-	-
35900	Other	105	-	-	-
<i>Miscellaneous Revenue:</i>					
36100	Earnings on Deposits and Investments	199,362	78,751	23,246	168,094
36200	Rentals	29,456	-	-	-
36300	Special Assessments	-	-	293,757	-
36700	Contributions and Donations - Private Sources	4,996	34,500	-	28,017
36900	Other	10,246	-	-	-
Total Revenue		5,989,321	3,125,837	317,003	236,111

Other Governmental Funds	Total Governmental Funds
\$ 212,254	\$ 1,746,603
502,345	6,507,517
-	48,789
-	924
-	3,508
107,344	107,344
-	275,565
19,250	19,250
261,285	349,880
-	4,161
-	53,070
-	49,433
81,236	81,236
-	269,761
-	219,449
-	19,271
-	5,458
-	128,797
-	591
7,056	84,566
10,085	17,082
-	39
-	893
-	5,410
16,037	16,037
-	105
112,247	581,700
118,667	148,123
174,519	468,276
213,534	281,047
-	10,246
<u>1,835,859</u>	<u>11,504,131</u>

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Second Penny Sales Tax Fund	Special Assessment Revolving Fund	Water Park Fund
Expenditures				
<i>General Government:</i>				
41100 Legislative	94,254	-	-	-
41200 City Administration	34,784	-	-	-
41400 Financial Administration	359,403	-	-	-
41900 Other	693,405	-	-	-
<i>Public Safety:</i>				
42100 Police	1,678,080	-	-	-
42200 Fire	173,208	-	-	-
42300 Protective Inspection	130,570	-	-	-
<i>Public Works:</i>				
43100 Highways and Streets	788,250	-	135,812	-
43700 Cemeteries	81,628	-	-	-
<i>Health and Welfare:</i>				
44100 Health	61,100	-	-	-
44400 Animal Control	54,766	-	-	-
<i>Culture and Recreation:</i>				
45100 Recreation	529,196	-	-	10,673
45200 Parks	299,643	-	-	-
45500 Library	285,091	-	-	-
45600 Auditorium	-	-	-	-
<i>Conservation and Development:</i>				
46300 Urban Redevelopment and Housing	34,000	12,500	-	-
46500 Economic Development and Assistance	127,396	-	-	-
47000 Debt Service	-	844,664	-	-
48000 Intergovernmental Expenditures	325,598	-	-	-
48500 Capital Outlay	141,410	684,672	276,291	7,256,379
Total Expenditures	5,891,782	1,541,836	412,103	7,267,052
Excess (Deficiency) of Revenue Over Expenditures	97,539	1,584,001	(95,100)	(7,030,941)
Other Financing Sources (Uses)				
39101 Transfers In	150,000	-	-	250,000
39103 Sale of Municipal Property	2,463	-	-	-
39120 Sale of Bonds	-	-	-	-
51100 Transfers Out	-	(800,000)	-	-
Total Other Financing Sources (Uses)	152,463	(800,000)	-	250,000
Net Change in Fund Balances	250,002	784,001	(95,100)	(6,780,941)
Fund Balances - December 31, 2007	4,638,135	2,624,906	682,239	6,997,249
Fund Balances - December 31, 2008	\$ 4,888,137	\$ 3,408,907	\$ 587,139	\$ 216,308

The accompanying notes are an integral part of the financial statements.

Other Governmental Funds	Total Governmental Funds
-	94,254
-	34,784
-	359,403
200,658	894,063
84,828	1,762,908
-	173,208
-	130,570
2,461	926,523
-	81,628
-	61,100
-	54,766
215,186	755,055
29,589	329,232
25,635	310,726
126,000	126,000
-	46,500
165,744	293,140
245,659	1,090,323
-	325,598
5,449,542	13,808,294
6,545,302	21,658,075
(4,709,443)	(10,153,944)
450,000	850,000
-	2,463
3,912,641	3,912,641
-	(800,000)
4,362,641	3,965,104
(346,802)	(6,188,840)
3,601,641	18,544,170
\$ 3,254,839	\$ 12,355,330

CITY OF SPEARFISH

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

(See Accountant's Compilation Report)

Net Change in Fund Balances - Total Government Funds \$ (6,188,840)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense in the Capital Assets Account Group, which is rolled into the Statement of Activities for reporting purposes. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Purchases Capitalized	13,808,294
Depreciation Expense	(997,897)
	<hr/> 12,810,397 <hr/>

Capital assets contributed to the City, which are included in the Statement of Activities.	1,411,426
--	-----------

The governmental funds reflect proceeds (loss) from capital asset sales, if any, while the Statement of Activities report a gain (loss) on sale or disposal of capital assets.	(13,361)
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The governmental fund financial statement property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	6,484
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Governmental funds report special assessments as revenue when available, but the Statement of Activities includes special assessments receivable as revenue upon completion of the project at the point when an enforceable legal claim arises.	61,029
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Governmental funds report grants receivable as revenue when available, but the Statement of Activities includes grants receivable as revenue upon completion of the project at the point when an enforceable legal claim arises.	123,058
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	537,371
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Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Assets.	(3,912,641)
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Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(15,162)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (i.e., change in accrued interest expense)	(128,167)
--	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (loss) of the internal service fund is reported with governmental activities.	(35,374)
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Change in Net Assets of Governmental Activities	\$ 4,656,220
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The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2008**

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
Current Assets			
101 Cash and Cash Equivalents	\$ 451,432	\$ 136,359	\$ 630,198
104 Investments	2,380,131	61,315	754,232
115 Accounts Receivable, Net	129,583	4,480	160,635
Total Current Assets	2,961,146	202,154	1,545,065
Capital Assets			
160 Land	105,714	150,000	30,129
162 Buildings	1,918,468	50,000	3,920,494
163 Accumulated Depreciation - Buildings	(1,088,418)	(9,333)	(2,557,470)
164 Improvements Other Than Buildings	8,967,455	-	6,706,110
165 Accumulated Depreciation - Improvements Other Than Buildings	(3,957,179)	-	(3,076,282)
166 Machinery and Equipment	798,495	71,247	2,995,061
167 Accumulated Depreciation - Machinery and Equipment	(584,813)	(10,750)	(2,554,899)
168 Construction Work in Progress	212,669	-	2,992,240
Total Capital Assets, Net	6,372,391	251,164	8,455,383
Total Assets	\$ 9,333,537	\$ 453,318	\$ 10,000,448
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	\$ 14,248	\$ 4,813	\$ 265,670
205 Current Portion of Long-Term Debt	-	-	57,396
215 Accrued Interest Payable	-	-	14,288
216 Accrued Wages	11,588	6,763	23,224
233 Accrued Leave Payable	46,251	11,692	41,201
220 Customer Deposits	102,600	-	-
Total Current Liabilities	174,687	23,268	401,779
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion	-	-	1,813,365
Total Long-Term Liabilities	-	-	1,813,365
Total Liabilities	174,687	23,268	2,215,144
Net Assets			
253.1 Invested in Capital Assets, Net of Related Debt	6,372,391	251,164	6,584,622
252.0 Unrestricted Net Assets	2,786,459	178,886	1,200,682
Total Net Assets	9,158,850	430,050	7,785,304
Total Liabilities and Net Assets	\$ 9,333,537	\$ 453,318	\$ 10,000,448

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Enterprise Funds	Internal Service Employee Health Insurance Fund
\$ 16,225	\$ 129,138	\$ 192,828	\$ 1,556,180	\$ 84,985
92,196	590,506	167,456	4,045,836	75,632
-	73,640	-	368,338	-
<u>108,421</u>	<u>793,284</u>	<u>360,284</u>	<u>5,970,354</u>	<u>160,617</u>
48,000	-	150,000	483,843	-
-	-	316,874	6,205,836	-
-	-	(141,254)	(3,796,475)	-
-	11,375	78,569	15,763,509	-
-	(1,593)	(49,116)	(7,084,170)	-
-	839,479	151,445	4,855,727	-
-	(610,654)	(136,675)	(3,897,791)	-
-	-	-	3,204,909	-
<u>48,000</u>	<u>238,607</u>	<u>369,843</u>	<u>15,735,388</u>	<u>-</u>
<u>\$ 156,421</u>	<u>\$ 1,031,891</u>	<u>\$ 730,127</u>	<u>\$ 21,705,742</u>	<u>\$ 160,617</u>
\$ -	\$ 21,670	\$ 490	\$ 306,891	\$ -
-	-	-	57,396	-
-	-	-	14,288	-
289	9,375	592	51,831	-
-	15,933	-	115,077	-
-	-	-	102,600	-
<u>289</u>	<u>46,978</u>	<u>1,082</u>	<u>648,083</u>	<u>-</u>
-	-	-	1,813,365	-
-	-	-	1,813,365	-
<u>289</u>	<u>46,978</u>	<u>1,082</u>	<u>2,461,448</u>	<u>-</u>
48,000	238,607	369,843	13,864,627	-
108,132	746,306	359,202	5,379,667	160,617
<u>156,132</u>	<u>984,913</u>	<u>729,045</u>	<u>19,244,294</u>	<u>160,617</u>
<u>\$ 156,421</u>	<u>\$ 1,031,891</u>	<u>\$ 730,127</u>	<u>\$ 21,705,742</u>	<u>\$ 160,617</u>

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	\$ 1,379,978	\$ 366,874	\$ 1,633,192
369 Miscellaneous	5,692	-	-
Total Operating Revenue	1,385,670	366,874	1,633,192
Operating Expenses			
410 Personal Services	277,709	143,135	532,063
420 Other Current Expenses	377,220	174,960	453,777
457 Depreciation	263,695	5,416	384,136
Total Operating Expenses	918,624	323,511	1,369,976
Operating Income (Loss)	467,046	43,363	263,216
Non-operating Income (Expense)			
334 State Grants	-	-	34,804
361 Earnings on Deposits and Investments	102,099	3,560	55,156
366 Gain on Disposition of Assets	-	-	-
369 Other	155	45,560	23,965
470 Interest Expense and Fiscal Charges	-	(3,000)	(5,951)
Total Non-operating Income	102,254	46,120	107,974
Income (Loss) Before Contributions and Transfers	569,300	89,483	371,190
391.07 Contributed Capital	681,400	-	-
391.1 Transfers In	-	150,000	-
511 Transfers Out	(105,000)	-	(62,500)
Total Contributions and Transfers	576,400	150,000	(62,500)
Net Income (Loss)	1,145,700	239,483	308,690
Net Assets - December 31, 2007	8,013,150	190,567	7,476,614
Net Assets - December 31, 2008	\$ 9,158,850	\$ 430,050	\$ 7,785,304

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Enterprise Funds	Internal Service Employee Health Insurance Fund
\$ 13,680	\$ 851,953	\$ 257,642	\$ 4,503,319	\$ -
-	6,310	-	12,002	442,990
13,680	858,263	257,642	4,515,321	442,990
6,859	260,894	48,188	1,268,848	-
10,349	417,584	126,602	1,560,492	482,849
-	75,172	13,644	742,063	-
17,208	753,650	188,434	3,571,403	482,849
(3,528)	104,613	69,208	943,918	(39,859)
-	-	-	34,804	-
4,257	23,852	11,015	199,939	4,485
-	825	-	825	-
-	-	145	69,825	-
-	-	-	(8,951)	-
4,257	24,677	11,160	296,442	4,485
729	129,290	80,368	1,240,360	(35,374)
-	-	-	681,400	-
-	-	-	150,000	-
-	(12,500)	(20,000)	(200,000)	-
-	(12,500)	(20,000)	631,400	-
729	116,790	60,368	1,871,760	(35,374)
155,403	868,123	668,677	17,372,534	195,991
\$ 156,132	\$ 984,913	\$ 729,045	\$ 19,244,294	\$ 160,617

CITY OF SPEARFISH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 1,383,959	\$ 362,394	\$ 1,631,212
Payments to Suppliers	(369,592)	(196,037)	(451,264)
Payments to Employees	(271,898)	(136,754)	(527,917)
Other Receipts	5,692	-	-
Net Cash Flows Provided by (Used in) Operating Activities	748,161	29,603	652,031
Cash Flows from Noncapital Financing Activities:			
Operating Subsidies	-	-	34,804
Transfers In	-	150,000	-
Transfers Out	(105,000)	-	(62,500)
Net Cash Flows Provided by (Used in) Financing Activities	(105,000)	150,000	(27,696)
Cash Flows From Capital and Related Financing Activities:			
Proceeds from Capital Debt	-	-	1,813,366
Purchase of Capital Assets	(453,202)	(21,247)	(2,652,687)
Proceeds from Sale of Equipment	-	-	-
Principal Paid on Capital Debt	-	(100,000)	(167,669)
Interest Paid	-	(3,000)	(5,951)
Other Receipts	155	45,560	23,965
Net Cash Flows Used in Capital and Related Financing Activities	(453,047)	(78,687)	(988,976)
Cash Flows Provided by Investing Activities:			
Interest Received	102,099	3,560	55,156
Increase (Decrease) in Cash and Investments	292,213	104,476	(309,485)
Cash and Investments - December 31, 2007	2,539,350	93,198	1,693,915
Cash and Investments - December 31, 2008	\$ 2,831,563	\$ 197,674	\$ 1,384,430
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 467,046	\$ 43,363	\$ 263,216
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	263,695	5,416	384,136
<i>Change in Assets and Liabilities:</i>			
Change in Accounts Receivable	(5,369)	(4,480)	(1,980)
Change in Accounts Payable	7,628	(21,077)	2,513
Change in Accrued Wages	1,410	1,234	2,144
Change in Accrued Leave Payable	4,401	5,147	2,002
Change in Customer Deposits	9,350	-	-
Net Cash Flows Provided by (Used in) Operating Activities	\$ 748,161	\$ 29,603	\$ 652,031
Noncash Capital and Related Financing Activities			
Capital Assets Contributed	681,400	-	-
Noncash Purchase of Equipment	-	-	271,313

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Enterprise Funds	Employee Health Insurance Fund
\$ 13,680	\$ 850,881	\$ 257,642	\$ 4,499,768	\$ 442,990
(10,349)	(412,588)	(126,112)	(1,565,942)	(482,849)
(6,822)	(258,953)	(48,036)	(1,250,380)	-
-	6,310	-	12,002	-
(3,491)	185,650	83,494	1,695,448	(39,859)
-	-	-	34,804	-
-	-	-	150,000	-
-	(12,500)	(20,000)	(200,000)	-
-	(12,500)	(20,000)	(15,196)	-
-	-	-	1,813,366	-
-	-	(172,340)	(3,299,476)	-
-	825	-	825	-
-	-	-	(267,669)	-
-	-	-	(8,951)	-
-	-	145	69,825	-
-	825	(172,195)	(1,692,080)	-
4,257	23,852	11,015	199,939	4,485
766	197,827	(97,686)	188,111	(35,374)
107,655	521,817	457,970	5,413,905	195,991
<u>\$ 108,421</u>	<u>\$ 719,644</u>	<u>\$ 360,284</u>	<u>\$ 5,602,016</u>	<u>\$ 160,617</u>
\$ (3,528)	\$ 104,613	\$ 69,208	\$ 943,918	\$ (39,859)
-	75,172	13,644	742,063	-
-	(1,072)	-	(12,901)	-
-	4,996	490	(5,450)	-
37	(280)	152	4,697	-
-	2,221	-	13,771	-
-	-	-	9,350	-
<u>\$ (3,491)</u>	<u>\$ 185,650</u>	<u>\$ 83,494</u>	<u>\$ 1,695,448</u>	<u>\$ (39,859)</u>
-	-	-	681,400	-
-	-	-	271,313	-

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Spearfish (City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 12 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund -- the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds -- special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund -- to account for naming rights (Note 14) and an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, nonprofit hospitals with 50 or fewer licensed beds and other public health care facilities or nonprofit health care facilities with 50 or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, debt retirement, the minor or major rehabilitation or reconstruction of streets, economic development purposes, and distribution to other political subdivisions of the State of South Dakota for an authorized public purpose under 6-5-5, including the operational costs thereof or for capital expenditures (City Ordinance No. 961). This is a major fund.

Special Assessment Revolving Fund -- to account for financing improvements for which special assessments are to be levied. The fund may be used both to pay the portion of the cost of such improvements assumed by the municipality and to advance the portion of such cost ultimately to be paid from collections of assessments (SDCL 9-43-69). This is a major fund.

Hospitality Tax Fund -- to account for the collection of a one percent tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions. Tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the advertising and promotion of the City, its facilities, attractions, and activities (SDCL 10-52A). This is not a major fund.

Library Gift Fund -- to account for donations restricted for library expenditures. This is not a major fund.

Convention Center Business Improvement District Fund -- to account for special assessments against hotels within the district; used to finance and promote projects within the district as allowed (SDCL 9-55-3). This is not a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Continued):

911 Emergency Fund – to account for 911 emergency surcharge collected to be used for payments of nonrecurring and recurring costs, and for the general operational expenses of the 911 related services (SDCL 34-45-12). This is not a major fund.

Spearfish Economic Development Loan Fund – to account for the revolving loan fund established to loan new business funds which will be repaid over a period of years. This is not a major fund.

Special Park Gift Fund – to account for any gift, grant, devise or bequest made by any person, private agency, agency of state government, the federal government, or any of its agencies for park purposes (SDCL 9-38-12). This is not a major fund.

Art in Public Places Fund – established to encourage visual art in the community, by providing matching grants. The revenue is derived from a percentage of building permit fees. This is not a major fund.

Municipal Highway and Bridge Fund – to account for the levy assessed for the purpose of maintaining or repairing street surfacing or pavement (SDCL 9-45-38). This is not a major fund.

Debt Service Funds – to account for the accumulation of resources for, and the payment of, general long-term debt principle, interest, and related costs.

Tax Increment District #1 Elkhorn Ridge Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of a municipal golf course and related infrastructure improvement made within the tax increment district. This is not a major fund.

Capital Project Funds – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Water Park Fund -- to account for the construction of an outdoor water park and recreation center. This is a major fund.

Recreation Paths Fund – to account for the ongoing construction of a recreation path throughout the community. This is not a major fund.

Tax Increment District #1 Elkhorn Ridge Capital Projects Fund – to account for construction of a municipal golf course and related infrastructure within tax increment district #1. This is not a major fund.

Tax Increment District #2 Industrial Park Capital Projects Fund – to account for construction of infrastructure improvements within tax increment district #2. This is not a major fund.

Permanent Funds -- permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs – that is for the benefit of the City and its citizenry.

Cemetery Perpetual Care Fund -- to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This is not a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply all FASB Statements and Interpretations issued after November 30, 1989.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City's waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Electric Production Fund – to account for the operation of the hydroelectric plant and related sales to Black Hills Power & Light (SDCL 9-39-1 and 9-39-26). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City's wastewater collection system and treatment facilities (SDCL 9-48-2). This is a major fund.

Parking Fund -- financed primarily by special assessments and fines in the parking district for use by the City. This is a major fund.

Solid Waste Fund -- to account for the collection and disposal of solid waste from the City (SDCL 9-32-11 and 34A-6). This is a major fund.

Campground Fund -- financed through revenues collected from the rental of campsites to account for expenditures in the City's campground. This is a major fund.

Internal Service Funds:

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost reimbursement basis. Internal service funds are never considered major funds.

Employee Health and Accident Insurance Fund – maintained for the purpose of employee health, dental, vision and accident insurance and related purposes.

Fiduciary Funds:

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds.

The City has no fiduciary funds.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the Statement of Net Assets.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified-accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary funds and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Spearfish, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2008, are property and sales tax receivable, contract receivable, and special assessments receivable.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

d. Interfund Eliminations and Reclassifications (Continued)

Government-wide Financial Statements: (Continued)

2. In order to minimize the doubling-up effect on the internal services fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to the funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reduction occurs in the Internal Service Fund, so that expenses are only reported in the function to which they relate.

Fund Financial Statements:

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant interfund utility charges.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as Improvements Other Than Buildings. Infrastructure assets acquired prior to January 1, 2004 are recorded at costs which were determined by estimates of the original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements (Continued):

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	10-50 yrs.
Buildings	\$ 5,000	Straight-line	10-50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-40 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of revenue bonds, tax increment financing, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund statements and the government-wide statements.

g. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services -- arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues (Continued)

2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The City pools the cash and investment resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash and investment resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

j. Application of Net Assets

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

k. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(1) Summary of Significant Accounting Policies (Concluded)

k. Equity Classifications (continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency funds have no fund equity.

l. Compensated Absences

Eligible employees shall be granted 3.08 hours of paid vacation per pay period for zero to six years of service. Upon completion of six full and continuous years of service, 40 additional hours of vacation shall be granted and 4.62 hours of paid vacation per pay period shall be accrued. Upon completion of ten full and continuous years of service, 40 additional hours of vacation shall be granted and 6.15 hours of paid vacation per pay period shall be accrued. Upon completion of twenty-five full and continuous years of service, 40 additional hours of vacation shall be granted and 7.70 hours of paid vacation per pay period shall be accrued. Eligible employees may accrue a maximum of 240 hours or 30 working days of vacation leave. Upon separation from employment, an employee will be paid for any accumulated vacation time at the employee's salary rate applicable on the last day of employment.

Eligible employees shall accrue sick leave at a rate of 3.69 hours of sick leave per pay period for zero to two years of service and 4.62 hours of sick leave per pay period for over two years of service. Employees may accumulate unlimited hours of sick leave. Upon separation from employment, an employee will be paid one-fourth of unused sick leave, but not more than 480 hours, at the employee's salary rate on the last day of employment, provided there has not been a break in service in the past seven years or the break in service was less than one year due to layoff; the employee has not been rehired prior to payment of sick leave; and termination was for other than cause; or the employee was laid off for a period of at least one year.

m. Inventory

The City maintains no significant amounts of inventory at December 31, 2008.

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments -- In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds,

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(2) Deposits and Investments (Continued)

such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or may be deposited with any bank or trust account designated by the City as its fiscal agent.

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	3-10 years	\$ 5,588,357
Federal National Mortgage Association Notes	AAA	2-10 years	986,177
Federal Home Loan Mortgage Corporation Notes	AAA	3-5 years	503,735
Federal Farm Credit Bank Bonds	AAA	4 years	800,460
External Investment Pools:			
SDFIT	Unrated		455,688
Total Investments			\$ 8,334,417

Interest Rate Risk.

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2008, the City's investment in SDFIT pool was unrated.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2008, none of the City's deposits were exposed to custodial credit risk.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by state law.

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer. The City's investments are invested as follows: Federal Home Loan Bank Bonds (67 percent); Federal National Mortgage Association Notes (12 percent); Federal Home Loan Mortgage Corporation Notes (6 percent); and Federal Farm Credit Bank Bonds (10 percent).

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measurable but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues consist primarily of contracts receivable, delinquent property taxes receivable, and special assessments receivable.

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2008:

Loan	Collateral	Rate	Maturity	Balance
Lehman Trike	Property	3%	June 2014	\$ 251,397
Spearfish Economic Development Corp.	Cert. of Deposit	0%	February 2009	140,000
Miller Machine	Equipment	3%	December 2011	97,785
Precision Blending	Equipment	3%	August 2011	34,772
Precision Blending, of Idaho, LLC	Promissory Note	3%	July 2013	118,571
Kazco, Inc.	Property	0%	December 2012	9,125
Black Hills Properties	Property	0%	January 2013	8,167
Flanagan	Property	0%	May 2012	6,833
Dykstra Properties	Property	0%	August 2011	5,333
Total				\$ 671,983

(5) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2008 is as follows:

	Balance 01/01/08	Additions	Deletions	Balance 12/31/08
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 6,428,521	\$ 1,074,505	\$ -	\$ 7,503,026
Construction Work in Progress, (Note 16)	4,023,455	10,465,241	392,459	14,096,237
Total Capital Assets, not being Depreciated	10,451,976	11,539,746	392,459	21,599,263
Capital Assets, being Depreciated:				
Buildings	8,477,583	1,263,614	-	9,741,197
Improvements Other Than Buildings	10,533,552	2,455,820	-	12,989,372
Machinery and Equipment	4,181,523	352,999	76,364	4,458,158
Total Capital Assets, being Depreciated	23,192,658	4,072,433	76,364	27,188,727

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(6) Changes in Capital Assets (Continued)

Less Accumulated Depreciation for:				
Buildings	2,183,141	183,877	-	2,367,018
Improvements Other Than Buildings	1,219,989	457,125	-	1,677,114
Machinery and Equipment	2,517,340	356,895	63,003	2,811,232
Total Accumulated Depreciation	5,920,470	997,897	63,003	6,855,364

Total Governmental Activities Capital Assets, being Depreciated, Net	17,272,188	3,074,536	13,361	20,333,363
Total Governmental Capital Assets, Net	\$ 27,724,164	\$ 14,614,282	\$ 405,820	\$ 41,932,626

Depreciation expense was charged to functions as follows:

Public Safety	\$ 271,965
Public Works	279,714
Culture and Recreation	243,584
General Government	161,691
Intergovernmental	40,943
Total Depreciation Expense - Governmental	\$ 997,897

	Balance 01/01/08	Additions	Deletions	Balance 12/31/08
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 483,843	\$ -	\$ -	\$ 483,843
Construction Work in Progress	464,502	2,740,407	-	3,204,909
Total Capital Assets, not being Depreciated	948,345	2,740,407	-	3,688,752

Capital Assets, being Depreciated:				
Buildings	6,023,495	182,341	-	6,205,836
Improvements Other Than Buildings	14,531,870	1,231,639	-	15,763,509
Machinery and Equipment	4,765,220	97,802	7,295	4,855,727
Total Capital Assets, being Depreciated	25,320,585	1,511,782	7,295	26,825,072

Less Accumulated Depreciation for:				
Buildings	3,614,957	181,518	-	3,796,475
Improvements Other Than Buildings	6,757,298	326,872	-	7,084,170
Machinery and Equipment	3,671,413	233,673	7,295	3,897,791
Total Accumulated Depreciation	14,043,668	742,063	7,295	14,778,436

Total Business-Type Activities Capital Assets, being Depreciated, Net	11,276,917	769,719	-	12,046,636
Total Business-Type Capital Assets, Net	\$ 12,225,262	\$ 3,510,126	\$ -	\$ 15,735,388

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(6) Changes in Capital Assets (Concluded)

Depreciation expense was charged to functions as follows:

Sewer	\$ 384,136
Water	263,695
Solid Waste	75,172
Campground	13,644
Electric Production	5,416
Total Depreciation Expense - Business-Type	\$ 742,063

As of December 31, 2008, the City has signed construction commitments in the amount of approximately \$5,340,000. These items are expected to be financed through grants, debt borrowings, developer funded TIFs and fund balance.

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2008:

	Balance 01/01/08	Borrowings	Repayments	Balance 12/31/08	Due Within One Year
Primary Government:					
Governmental Activities:					
Spearfish Industrial Land	\$ 66,667	\$ -	\$ 66,667	\$ -	\$ -
TIF #1	1,488,223	3,912,641	-	5,400,864	137,780
Series 2007 Bonds	8,940,000	-	460,000	8,480,000	320,000
Humane Society	46,447	-	10,704	35,743	11,288
Compensated Absences	369,013	238,525	223,363	384,175	384,175
Total Governmental Activities	10,910,350	4,151,166	760,734	14,300,782	853,243
Business-Type Activities:					
Sewer-Water Revolving Loan	225,064	1,813,365	167,668	1,870,761	57,396
Electric Plant	100,000	-	100,000	-	-
Compensated Absences	101,306	73,864	60,093	115,077	115,077
Total Business-Type Activities	426,370	1,887,229	327,761	1,985,838	172,473
Total Primary Government	\$ 11,336,720	\$6,038,395	\$ 1,088,495	\$ 16,286,620	\$ 1,025,716

Interest expense for the year ended December 31, 2008 was \$441,654.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2008, is comprised of the following:

Revenue Bonds

Water Pollution Control Revolving Loan for \$1,945,000, matures in May 2009, interest at 4 percent, due in monthly installments of \$14,468. Sewer revenues pledged and financed through the Sewer Fund. \$ 57,395

Series 2007 Sales Tax Bonds for \$8,940,000, mature in June 2027, interest at 3.5 to 4.4 percent, due in semi-annual installments from \$155,000 to \$325,000. Financed through Second Penny Sales Tax Special Revenue Fund for the Water Park. 8,480,000

Humane Society Sales Tax Bonds for \$100,000, mature in December 2011, interest at 5.38 percent, due in annual installments of \$6,530, including interest. Financed through Second Penny Sales Tax Fund. 35,743

Clean Water Revenue Borrower Bonds, Series 2008 with a maximum borrowing of \$5,900,000 by the end of 2010. As of December 21, 2008, advances totaled \$1,813,365. Payments begin in 2010 due in quarterly installments, including interest at 3.25 percent through April 2030. Sewer revenues pledged and financed through the Sewer Fund for the Wastewater Expansion. 1,813,365

Tax Increment Financing Obligations

TIF #1, including interest at varying rates per annum, due in varying installments within 30 days of property tax collection from the county. Financed through the TIF Debt Service Fund. 5,400,865

Total Bonds and Other Obligations 15,787,368

Compensated Absences

General Fund	\$ 384,175
Water Fund	46,251
Sewer Fund	41,201
Electric Fund	11,692
Solid Waste Fund	15,933
Total Compensated Absences	499,252

Total Long-Term Debt \$ 16,286,620

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2008, except for compensated absences, are as follows:

	TIF #1 Obligation		Revenue Bonds		Clean Water Revenue Borrower Bonds, 2008		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2009	\$ 493,707	\$ 137,780	\$ 348,655	\$ 388,683	\$ 48,202	\$ 74,888	\$ 890,564	\$ 601,351
2010	480,408	151,079	336,113	341,903	55,837	67,254	872,358	560,236
2011	465,826	165,662	323,285	357,552	53,619	69,472	842,730	592,686
2012	451,186	180,302	309,919	355,000	51,327	71,764	812,432	607,066
2013	432,432	199,056	296,463	370,000	48,960	74,131	777,855	643,187
2014-2018	1,835,419	1,322,019	1,252,044	2,080,000	206,462	408,993	3,293,925	3,811,012
2019-2023	1,061,433	2,096,005	781,384	3,125,000	134,401	481,053	1,977,218	5,702,058
2024-2028	114,014	1,148,961	191,730	1,555,000	49,644	565,810	355,388	3,269,771
Total	\$ 5,334,425	\$ 5,400,864	\$ 3,839,593	\$ 8,573,138	\$ 648,452	\$ 1,813,365	\$ 9,822,470	\$ 15,787,367

The Clean Water Revenue Borrower Bond, Series 2008, debt service schedule will change after the final disbursement from the bond.

(8) Conduit Debt

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. The City, the State of South Dakota, and any other political subdivision of the state are not obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2008, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of **\$2,177,812**.

(9) Lease

In 1997, the City issued Series 1997 bonds for the construction of a convention center on the City's land. In December 1997, the City entered into a lease agreement with the owners of the hotel adjoining the convention center, whereby the hotel is to manage the convention center in return for the convention center's profits. The term of the lease is 20 years, with the option to renew for another 10 years. The City receives additional sales tax revenue and assessments from business districts to repay the related debt.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

(10) Interfund Transfers

Interfund transfers during the year ended December 31, 2008, were as follows:

	Transfers In	Transfers Out
<i>Major Funds</i>		
General Fund	\$ 150,000	\$ -
Second Penny Sales Tax Fund	-	800,000
Water Park Fund	250,000	-
Water Fund	-	105,000
Electric Production Fund	150,000	-
Sewer Fund	-	62,500
Solid Waste Fund	-	12,500
Campground Fund	-	20,000
<i>Nonmajor Funds</i>		
Municipal Highway and Bridge Fund	350,000	-
Recreation Path Fund	100,000	-
Total Transfers	\$ 1,000,000	\$ 1,000,000

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that expended them and to (b) move revenues from the enterprise funds to the general fund.

(11) Retirement Plan -- South Dakota Retirement System

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2008, 2007, 2006, 2005, and 2004 were \$222,472, \$204,068, \$201,618, \$187,845, and \$169,587, respectively, equal to the required contributions each year.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **DECEMBER 31, 2008**

(12) Joint Venture

The City previously participated in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement. The task force is no longer active, and the City is in the process of withdrawing their participation.

The members of the joint venture, each with 10 percent participation, were as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture's governing board was composed of ten representatives, who were the sheriffs from each county and the police chief for each municipality. The board was responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

(13) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2008, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. The City covers \$400 of an employee's health insurance benefits. The employee is responsible for additional charges based on the coverage and deductible plan selected by the employee. The City also reimburses employees for 70 percent of the deductible between \$500 and \$1,000 (maximum of \$350) on the employee. Excess funds are kept in the Health and Accident Insurance Fund and are used to stabilize premium costs.

Liability Insurance:

The City purchases liability insurance for torts, theft of or damage to property, and errors and omissions of public officials from the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, errors and omissions, property, auto (liability and physical damage), police professional liability, boiler, and machine.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2008

(13) Risk Management (Continued)

Liability Insurance (Continued):

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$500 deductible on physical auto; \$500 deductible on boiler and machine; \$500 deductible on property; \$1,000 deductible on errors and omissions; and \$5,000 on law enforcement professional liability.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following basis:

End of the City's First Full Year	50%
End of the City's Second Full Year	60%
End of the City's Third Full Year	70%
End of the City's Fourth Full Year	80%
End of the City's Fifth Full Year	90%
End of the City's Sixth Full Year	100%

As of December 31, 2008, the City has a vested balance in the cumulative reserve fund of \$98,788 and is considered to be fully vested.

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retro-actively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$600,000 of any claim per individual. The pool has reinsurance, which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The City has not reserved equity for the payment of future unemployment benefits.

During the year ended December 31, 2008, no claims for unemployment benefits were paid. At December 31, 2008, no claims had been filed for unemployment benefits, and none are anticipated in the next fiscal year.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2008

(14) Contracts Receivable

In 2002, the City entered into a contract with Black Hills Corporation for naming rights on the new Sports Complex. The agreement calls for Black Hills Corporation to pay the City \$200,000 in ten annual installments of \$20,000 beginning March 1, 2003. This amount is reflected in the financial statements as long-term contracts receivable in the Second Penny Sales Tax Fund.

(15) City Officers

The following were City officers for the year ended December 31, 2008:

Mayor:

Jerry Krambeck

Council:

Shawn Rosenau

Mary Morgan

Tom Quinn

Doug Schmit

Eric Davis

Paul Young

City Administrator/Finance Officer:

Greg Sund

Attorney:

Richard Plumier

Brady Plumier, P.C.

(16) Prior Period Adjustment

A 2007 account payable invoice for \$67,650 for the Water Park Construction Fund was for the capital asset of the Recreation Center Improvements. The Construction in Progress Asset and Fund Balance was understated by \$67,650 in 2007 on the Government Wide Statement of Net Assets.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue					
	<i>Taxes:</i>				
311	General Property Taxes	\$ 1,570,693	\$ 1,570,693	\$1,534,349	\$ (36,344)
313	General Sales and Use Taxes	2,600,000	2,600,000	3,002,586	402,586
314	Gross Receipts Tax	45,000	45,000	48,789	3,789
315	Amusement Taxes	1,500	1,500	924	(576)
319	Penalties and Interest on Delinquent Taxes	2,000	2,000	3,508	1,508
	<i>Licenses and Permit:</i>				
320	Licenses and Permits	224,000	224,000	275,565	51,565
	<i>Intergovernmental Revenue:</i>				
334	State Grants	-	-	38,595	38,595
	<i>State Shared Revenue:</i>				
335	Bank Franchise Tax	4,000	4,000	4,161	161
335	Liquor Tax Reversion	45,000	45,000	53,070	8,070
335	Motor Vehicle Licenses (5%)	35,000	35,000	49,433	14,433
335.20	Other	150,000	150,000	269,761	119,761
	<i>County Shared Revenue:</i>				
339	County Payments in Lieu of Taxes	219,440	219,440	219,449	9
338	County HBR Tax	22,000	22,000	19,271	(2,729)
	<i>Charges for Goods and Services:</i>				
341	General Government	8,500	8,500	5,458	(3,042)
342	Public Safety	109,200	109,200	128,797	19,597
343	Highways and Streets	40	40	591	551
346	Culture and Recreation	247,000	247,000	77,510	(169,490)
348	Cemetery	6,100	6,100	6,997	897
349	Other	-	-	39	39
	<i>Fines and Forfeits:</i>				
351	Court Fines and Costs	7,000	7,000	893	(6,107)
352	Animal Control Fines	-	-	5,410	5,410
359	Other	-	-	105	105
	<i>Miscellaneous Revenue:</i>				
361	Earnings on Deposits and Investments	110,000	110,000	199,362	89,362
362	Rentals	26,100	26,100	29,456	3,356
367	Contributions and Donations - Private Sources	-	-	4,996	4,996
369	Other	-	-	10,246	10,246
Total Revenue		5,432,573	5,432,573	5,989,321	556,748

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	95,259	95,259	94,254	1,005
411.5 Contingency	150,000	150,000	-	150,000
Amount Transferred	-	(150,000)	-	(150,000)
412 Executive	-	36,000	34,784	1,216
413 Elections	250	250	-	250
414 Financial Administration	397,627	397,627	359,403	38,224
419 Other	751,398	751,398	716,838	34,560
<i>Public Safety:</i>				
421 Police	1,718,607	1,734,607	1,711,316	23,291
422 Fire	176,959	176,959	173,208	3,751
423 Protective Inspection	140,350	140,350	130,570	9,780
<i>Public Works:</i>				
431 Highways and Streets	702,459	767,459	800,286	(32,827)
437 Cemeteries	102,334	102,334	81,628	20,706
<i>Health and Welfare:</i>				
441 Health	61,100	61,100	61,100	-
444 Humane Society	61,787	61,787	54,766	7,021
<i>Culture and Recreation:</i>				
451 Recreation	660,987	660,987	529,196	131,791
452 Parks	346,351	346,351	337,783	8,568
455 Library	285,553	285,553	285,091	462
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	34,000	34,000	34,000	-
465 Economic Development and Assistance	128,296	128,296	127,396	900
480 Intergovernmental Expenditures	330,019	363,019	360,163	2,856
Total Expenditures	6,143,336	6,143,336	5,891,782	251,554
Excess of Revenue Over (Under)				
Expenditures	(710,763)	(710,763)	97,539	808,302
Other Financing Sources (Uses):				
391.1 Transfers In	150,000	150,000	150,000	-
391.03 Sale of Municipal Property	-	-	2,463	2,463
511 Transfers Out	-	(38,000)	-	38,000
Total Other Financing Sources	150,000	112,000	152,463	40,463
Net Change in Fund Balance	(560,763)	(598,763)	250,002	848,765
Fund Balance - December 31, 2007, as Restated	4,638,135	4,638,135	4,638,135	-
Fund Balance - December 31, 2008	\$ 4,077,372	\$ 4,039,372	\$ 4,888,137	\$ 848,765

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
SECOND PENNY SALES TAX FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 2,600,000	\$ 2,600,000	\$ 3,002,586	\$ 402,586
<i>Intergovernmental Revenue:</i>				
334 State Grants	-	10,000	10,000	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	50,000	50,000	78,751	28,751
367 Contributions and Donations - Private Sources	30,000	30,000	34,500	4,500
Total Revenue	2,680,000	2,690,000	3,125,837	435,837
Expenditures				
<i>Public Safety:</i>				
421 Police	56,000	66,000	66,000	-
422 Fire	150,000	150,000	-	150,000
<i>Public Works:</i>				
431 Highways and Streets	527,000	527,000	526,387	613
<i>Culture and Recreation:</i>				
451 Recreation	125,000	125,000	92,285	32,715
465 Economic Development and Assistance	12,500	12,500	12,500	-
470 Debt Service	902,500	902,500	844,664	57,836
Total Expenditures	1,773,000	1,783,000	1,541,836	241,164
Excess of Revenue Over Expenditures	907,000	907,000	1,584,001	677,001
Other Financing Uses:				
511 Transfers Out	(1,000,000)	(1,000,000)	(800,000)	(200,000)
Net Change in Fund Balance	(93,000)	(93,000)	784,001	(877,001)
Fund Balance - December 31, 2007	2,624,906	2,624,906	2,624,906	-
Fund Balance (Deficit) - December 31, 2008	\$ 2,531,906	\$ 2,531,906	\$ 3,408,907	\$ (877,001)

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
SPECIAL ASSESSMENT REVOLVING FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	\$ 10,000	\$ 10,000	\$ 23,246	\$ 13,246
363 Special Assessments	28,000	28,000	293,757	265,757
Total Revenue	38,000	38,000	317,003	279,003
Expenditures				
<i>Public Works:</i>				
431 Highways and Streets	201,000	476,000	412,103	63,897
Total Expenditures	201,000	476,000	412,103	63,897
Net Change in Fund Balance	(163,000)	(438,000)	(95,100)	342,900
Fund Balance - December 31, 2007	682,239	682,239	682,239	-
Fund Balance - December 31, 2008	\$ 519,239	\$ 244,239	\$ 587,139	\$ 342,900

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2008

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2008.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund, special revenue funds, capital projects funds, and debt service funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund	911 Emergency Fund	Spearfish Economic Revolving Fund
Assets					
101 Cash and Cash Equivalents	\$ 293,776	\$ 28,236	\$ 34,592	\$ 145,988	\$ 545,419
104 Investments	213,075	35,465	37,871	105,081	59,330
110 Sales Taxes Receivable	43,872	-	-	-	-
121 Special Assessments Receivable	-	-	9,286	-	-
128 Notes Receivable	-	-	-	-	671,983
132 Due from Other Governments	-	-	-	19,267	-
Total Assets	\$ 550,723	\$ 63,701	\$ 81,749	\$ 270,336	\$ 1,276,732
Liabilities and Fund Balances					
<i>Liabilities</i>					
202 Accounts Payable	\$ -	\$ -	\$ -	\$ 563	\$ -
220 Customer Deposits	-	-	-	-	3,580
224 Deferred Revenue	-	-	-	-	-
Total Liabilities	-	-	-	563	3,580
<i>Fund Balances</i>					
261 <i>Reserved Fund Balances</i>					
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-	671,983
262 <i>Unreserved Fund Balances</i>					
262.01 Designated for Next Year's Appropriations	22,500	-	10,000	187,000	-
262.09 Undesignated	528,223	63,701	71,749	82,773	601,169
Total Fund Balances	550,723	63,701	81,749	269,773	1,273,152
Total Liabilities and Fund Balances	\$ 550,723	\$ 63,701	\$ 81,749	\$ 270,336	\$ 1,276,732

Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	Cemetery Perpetual Care Fund	Recreation Path Fund	TID #1 Elkhorn Ridge Capital Projects Fund	TID #2 Industrial Park Capital Projects Fund	Total
\$ 176,359	\$ 28,579	\$ 69,209	\$ 13,078	\$ 92,190	\$ 61,367	\$ 1,411	\$ 80,353	\$ 1,570,557
121,467	73	189,495	34	293,464	6,115	4	3,042	1,064,516
-	-	-	-	-	-	-	-	43,872
-	-	2,093	-	-	-	-	-	11,379
-	-	-	-	-	-	-	-	671,983
-	-	-	-	-	96,391	-	-	115,658
\$ 297,826	\$ 28,652	\$ 260,797	\$ 13,112	\$ 385,654	\$ 163,873	\$ 1,415	\$ 83,395	\$ 3,477,965

\$ 24,000	\$ -	\$ 35,939	\$ -	\$ -	\$ 44,324	\$ -	\$ 16,236	\$ 121,062
-	-	-	-	-	-	-	-	3,580
-	-	2,093	-	-	96,391	-	-	98,484
24,000	-	38,032	-	-	140,715	-	16,236	223,126

-	-	-	-	-	-	-	-	671,983
21,700	13,500	877	-	-	-	-	67,159	322,736
252,126	15,152	221,888	13,112	385,654	23,158	1,415	-	2,260,120
273,826	28,652	222,765	13,112	385,654	23,158	1,415	67,159	3,254,839
\$ 297,826	\$ 28,652	\$ 260,797	\$ 13,112	\$ 385,654	\$ 163,873	\$ 1,415	\$ 83,395	\$ 3,477,965

CITY OF SPEARFISH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund	911 Emergency Fund	Spearfish Economic Revolving Fund
Revenue:					
<i>Taxes:</i>					
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	502,345	-	-	-	-
316 911 Telephone Surcharge	-	-	-	107,344	-
<i>Intergovernmental Revenue:</i>					
331 Federal Grants	-	-	-	19,250	-
334 State Grant	-	-	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-	-	-
<i>Charges for Goods and Services:</i>					
346 Culture & Recreation	-	-	-	-	-
348 Cemeteries	-	-	-	-	-
<i>Fines & Forfeits:</i>					
354 Library	-	16,037	-	-	-
<i>Miscellaneous Revenue:</i>					
361 Earnings on Deposits and Investments	20,737	2,129	4,193	8,647	34,735
362 Rentals	-	-	-	-	4,620
363 Special Assessments	-	-	174,445	-	-
367 Contributions and Donations - Private Sources	-	25,625	19,406	-	-
Total Revenue	523,082	43,791	198,044	135,241	39,355
Expenditures:					
<i>General Government:</i>					
419 Other	200,658	-	-	-	-
<i>Public Safety:</i>					
421 Police	-	-	-	84,828	-
<i>Public Works:</i>					
431 Highway and Streets	-	-	-	-	-
<i>Culture and Recreation:</i>					
451 Recreation	204,936	-	-	-	-
452 Parks	-	-	-	-	-
455 Library	-	25,635	-	-	-
456 Auditorium	126,000	-	-	-	-
<i>Conservation and Development:</i>					
465 Economic Development and Assistance	33,000	-	132,393	-	351
470 Debt Service	-	-	90,000	-	-
485 Capital Outlay	8,239	-	-	20,238	-
Total Expenditures	572,833	25,635	222,393	105,066	351
Excess of Revenue Over (Under) Expenditures	(49,751)	18,156	(24,349)	30,175	39,004
Other Financing Sources:					
391.1 Transfers In	-	-	-	-	-
391.25 Tax Increment Financing Debt Issued	-	-	-	-	-
Total Other Financing Sources	-	-	-	-	-
Net Change in Fund Balances	(49,751)	18,156	(24,349)	30,175	39,004
Fund Balances, December 31, 2007	600,474	45,545	106,098	239,598	1,234,148
Fund Balances, December 31, 2008	\$ 550,723	\$ 63,701	\$ 81,749	\$ 269,773	\$ 1,273,152

Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund	Elkhorn Ridge Debt Fund	Cemetery Perpetual Care Fund	Recreation Path Capital Project Fund	TID#1 Ridge Capital Projects Fund	TID #2 Park Capital Projects Fund	Total
\$ -	\$ -	\$ -	\$ 77,656	\$ -	\$ -	\$ -	\$ 134,598	\$ 212,254
-	-	-	-	-	-	-	-	502,345
-	-	-	-	-	-	-	-	107,344
-	-	-	-	-	-	-	-	19,250
-	-	-	-	-	261,285	-	-	261,285
-	-	81,236	-	-	-	-	-	81,236
-	7,056	-	-	-	-	-	-	7,056
-	-	-	-	10,085	-	-	-	10,085
-	-	-	-	-	-	-	-	16,037
9,443	802	24,971	541	988	1,869	117	3,075	112,247
19,271	-	94,776	-	-	-	-	-	118,667
-	-	-	-	-	-	-	74	174,519
13,503	-	155,000	-	-	-	-	-	213,534
42,217	7,858	355,983	78,197	11,073	263,154	117	137,747	1,835,859
-	-	-	-	-	-	-	-	200,658
-	-	-	-	-	-	-	-	84,828
-	-	439	-	-	-	-	2,022	2,461
-	-	-	-	-	-	10,250	-	215,186
29,589	-	-	-	-	-	-	-	29,589
-	-	-	-	-	-	-	-	25,635
-	-	-	-	-	-	-	-	126,000
-	-	-	-	-	-	-	-	165,744
-	-	-	155,659	-	-	-	-	245,659
3,400	-	1,038,448	-	-	408,240	3,902,411	68,566	5,449,542
32,989	-	1,038,887	155,659	-	408,240	3,912,661	70,588	6,545,302
9,228	7,858	(682,904)	(77,462)	11,073	(145,086)	(3,912,544)	67,159	(4,709,443)
-	-	350,000	-	-	100,000	-	-	450,000
-	-	-	-	-	-	3,912,641	-	3,912,641
-	-	350,000	-	-	100,000	3,912,641	-	4,362,641
9,228	7,858	(332,904)	(77,462)	11,073	(45,086)	97	67,159	(346,802)
264,598	20,794	555,669	90,574	374,581	68,244	1,318	-	3,601,641
\$ 273,826	\$ 28,652	\$ 222,765	\$ 13,112	\$ 385,654	\$ 23,158	\$ 1,415	\$ 67,159	\$ 3,254,839

COMPLIANCE AUDIT SECTION



Ketel Thorstenson, LLP

Certified Public Accountants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and recommendations as 08-1.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, Common Council, and management, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

January 19, 2010

CITY OF SPEARFISH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2008

A. Status of Prior Audit Findings and Recommendations

Administration is aware that the budgeting process needs to be more diligent in completing supplemental appropriations, when necessary. Finding 07-1 will be repeated for the year ending December 31, 2008.

B. Current Year Audit Findings and Recommendations

08-1 Finding: Budgetary Overdraft

Criteria: South Dakota Codified Law (SDCL) 9-21-9 and 9-21-10 establish budgetary requirements of the City.

Condition: The City has a \$32,827 budgetary overdraft for the General Government -- Public Works -- Highways and Streets subfunction in violation of SDCL 9-21-9 and 9-21-10.

Cause: The City did not have internal processes in place to prevent this violation of State law.

Potential Effect: The City did not follow State law.

Recommendation: The City should monitor its budget balances and take appropriate actions, including the adoption of Supplemental Appropriation Ordinances, if necessary, to ensure adequate appropriation balances exist before entering into any contract.

Response: The principle reason the General Government -- Public Works -- Highways and Streets subfunction, Snow Removal Department was \$32,827 in budgetary overdraft in 2008 was due to severe winter storms at the end of calendar 2008. The City had already utilized all of its Contingency Funds and there was not enough time for the City to formally process a Budgetary Supplemental Ordinance for this Department due to State Statute constraints. The Snow Removal Department had used the majority of the City's Contingency Budget earlier in the year due to the terrible winter snow season from January through May.

The City has taken additional measures in 2010 to prevent this issue from happening again by adopting a special Weather Contingency Budget that can only be utilized for transfers to budgets that have had significant unforeseen expenditures during the year due to weather-related incidents.